



**UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL**

Audit Services

April 24, 2020

TO: Denise L. Carter
Acting Assistant Secretary
Office of Finance and Operations

FROM: Bryon S. Gordon /s/
Assistant Inspector General for Audit

SUBJECT: Final Memorandum, "Risk Assessment of the Department's Grant Closeout Process," Control Number ED-OIG-S19U0002

Attached is the subject final memorandum that consolidates the results of our risk assessment of the Department's grant closeout process. We have provided an electronic copy to your audit liaison officer. This memorandum incorporates the comments you provided in response to the draft memorandum.

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this memorandum, represent the opinions of the Office of Inspector General.

In accordance with the Freedom of Information Act (Title 5, United States Code, Section 552), reports that the Office of Inspector General issues are available to members of the press and general public to the extent information they contain is not subject to exemptions in the Act.

We appreciate your cooperation during this review. If you have any questions, please contact Michele Weaver-Dugan, Regional Inspector General for Audit, Internal Operations/Philadelphia Audit Team, at (202) 245-6941 or michele.weaver-dugan@ed.gov.

FINAL MEMORANDUM

Introduction

The purpose of this memorandum is to inform you of the results of the Office of Inspector General's (OIG) risk assessment of the Department of Education's (Department) grant closeout process, as required by the Grants Oversight and New Efficiency (GONE) Act of 2016, Public Law 114-117. Our objective was to perform the required risk assessment to determine whether an audit or review of the Department's grant closeout process was warranted.

We assessed the risk of the Department's grant closeout process as moderate and determined that an audit or review is warranted. Specifically, we identified risks with the reliability of grant data and related GONE Act reporting, as well as the Department's grant closeout policies and procedures, including a policy allowing older grants to be closed in compliance¹ without required reports being provided by the grantee. In addition, we also found that both the volume of expired grants and amount of undisbursed grant funds has significantly increased between the date of initial GONE Act reporting (September 30, 2017) and January 30, 2020, indicating that grant closeout is less of a focus now that GONE Act reporting is over. This memorandum does not contain recommendations.

Background

On January 28, 2016, the President signed into law the Grants Oversight and New Efficiency (GONE) Act with the goal of closing out expired grants and cooperative agreements. The Act required federal agencies to report to Congress information on any grants not yet closed for which the period of performance, including any extensions, ended more than 2 years prior.² Each agency, in coordination with the Department of Health and Human Services (HHS), was to submit to Congress and HHS by December 31, 2017, a report that:

¹ A grant closed in compliance indicates that the grantee has complied with all material requirements of the grant.

² Office of Management and Budget (OMB), Management Procedures Memorandum, No, 2016-04, "GONE Act Reporting of Unclosed Grant and Cooperative Agreement Awards for Which the Period of Performance Has Expired More Than Two Years," noted that grants and cooperative agreements whose period of performance ended on or before September 30, 2015, should be included in the required reporting.

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- lists each federal grant award held by such agency;
- provides the total number of federal grant awards, including the number of grants by time period of expiration, the number with zero-dollar balances, and the number with undisbursed balances;
- describes the challenges leading to delays in grant closeout; and
- explains, for the 30 oldest federal grant awards, why each has not been closed out.

Each agency, within 1 year after submitting such report, was also required to submit an update to the initial report indicating whether the open awards listed in the initial GONE Act submission had been closed.

In addition, the GONE Act required the Inspector General of an agency with more than \$500 million in annual grant funding to conduct a risk assessment to determine if an audit or review of the agency's grant closeout process was warranted.

Office of Finance and Operations (OFO)³ staff were responsible for compiling and reporting the required GONE Act data. In its fiscal year (FY) 2017 Agency Financial Report (AFR), the Department reported that it had 10 grants whose period of performance had been expired between 2 and 3 years and were not yet closed out- 3 grants with zero-dollar balances and 7 with undisbursed dollar balances totaling nearly \$7.5 million. The Department reported that it had no grants whose period of performance had been expired for more than 3 years. In its FY 2018 AFR, the Department reported that it had closed out all 10 of these grants. See Table 1 below.

³ During the time of GONE Act implementation and reporting, the Department went through a reorganization. Staff involved in GONE Act implementation were largely part of the Department's Office of the Chief Financial Officer's General Accounting Group as well as the Office of the Deputy Secretary's Risk Management Service (RMS), Grant Policy and Procedures Team. After the reorganization, these staff were part of the Cash & Business Financial Management Services Group and Office of Grants Administration (OGA) within OFO.

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Table 1. Education GONE Act Reporting

	FY 2017 AFR	FY 2018 AFR
Grants with zero-dollar balances	3	0
Grants with undisbursed dollar balances	7	0
Total amount of undisbursed balances	\$7,488,316	\$0

Grant Closeout Statuses

Department grants can be assigned one of four closeout statuses within the Department's grants management system, G5: liquidation, suspension, manual closeout, and closed. The four statuses and their associated activities are as follows:

- Liquidation – A grantee is typically given 90 days from the end of the grant's performance period to submit final performance and financial reports and draw down funds for obligations incurred prior to their grant's performance period end date.
- Suspension – Provides an additional 6-month period following the liquidation period to complete grant closeout activities.⁴ Grants in this phase have either unexpended funds remaining or a required report was not received and recorded in G5 by program staff. Grantees may not draw down any funds remaining without program staff's approval and intervention.
- Manual Closeout – Occurs when, if at the end of the suspension period, a grant still has either unexpended funds or a required report was not received and recorded in G5 by program staff. Program staff must contact the grantee regarding the unexpended funds or missing report(s) and resolve any issues preventing the grant from being closed out.
- Closed – The grant's performance period has ended, all required reports have been submitted, and the remaining balance obligations are zero.

⁴ The liquidation and suspension periods can be extended.

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Results of Review

Reliability of the Department's GONE Act Reporting

We identified concerns with the reliability of the Department's grant data. Specifically, the Department's GONE Act reporting in the FY 2017 and 2018 AFRs underreported the number of grants subject to GONE Act reporting due to the Department excluding Impact Aid formula grants and grants in the liquidation or suspension phase. Further, limitations within G5 made it difficult to calculate the actual period of performance end date thereby hindering the ability to calculate the actual number of expired grants.

Table 2. Underreporting of Expired Grants

	# of Expired Grants	Undisbursed Dollar Balances
Underreported Impact Aid Grants (as of 2/28/2020)	74	\$0
Underreported Grants in Liquidation or Suspension Phases (Accounting for the Tydings period ⁵ by Subtracting 90 Days from the Liquidation Period, as was used in GONE Act reporting)	3	\$840,393
Underreported Grants in Liquidation or Suspension Phases (Accounting for the Tydings period by Adding 12 Months to the Period of Performance End Date)	71	\$78,618,441
Underreported Grants⁶	Between 77 and 145	Between \$840,393 and \$78,618,441

⁵ The Tydings period is an additional 12-month period that allows recipient educational agencies and institutions under certain formula grant programs to obligate and expend any funds that were not obligated or expended during the period of performance.

⁶ This range of underreported grants and undisbursed balances represents the number of expired Impact Aid grants and undisbursed balances not included in reporting plus the range of underreported grants in liquidation or suspension phases accounting for the Tydings period through either subtracting 90 days from the liquidation period or adding 12 months to the period of performance end date. See the *G5 Data Limitations* section for discussion regarding the uncertainty in determining the exact number of expired grants.

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Excluded Impact Aid Grants

We found that the Department's GONE Act reporting did not include all Impact Aid grants. OFO staff indicated that Impact Aid grants were captured as part of the data used in GONE Act reporting. However, our review of the Department's data identified that only discretionary Impact Aid grants were reported, not formula Impact Aid grants.⁷ Based upon our subsequent evaluation of the query used by the Department to extract grant data from the G5 database, we determined Impact Aid formula grant programs would not have been extracted and therefore would not have been included in reporting where applicable. To determine the extent of underreported Impact Aid grants, we ran a query similar to the Department's that was modified to ensure inclusion of Impact Aid formula grants. We found there were 74 Impact Aid grants still open as of the date of our query whose period of performance ended on or before September 30, 2015, that should have been included in the Department's FY 17 GONE Act reporting and, since they were still open, its FY 18 GONE Act reporting.⁸ When we brought this to the attention of OFO staff, they explained that these Impact Aid grants are handled differently from regular formula grants in that program staff are not involved in closeout procedures. Rather, G5 automatically closes Impact Aid formula grants when their performance cycle ends, so these grants were not included in GONE Act reporting. The Impact Aid Director confirmed that G5 should have closed these grants and was not sure why any of them would still be open. Our review of the GONE Act and related guidance found nothing to indicate that Impact Aid formula grants should be exempted from reporting, regardless of how similar or dissimilar the process is for closing these grants compared to other Department grants.

At the exit conference, Department officials noted that the transition to the Department's new IT infrastructure contract may have caused issues that prevented the script to run that would have closed these grants. G5 staff noted they would run the

⁷ There are four parts to the Impact Aid program. Three are formula grant programs and one is a discretionary grant program.

⁸ This number represents Impact Aid formula grants open as of the date of our query, February 28, 2020, with performance period end dates of September 30, 2015, or earlier that would have been subject to GONE Act reporting requirements. It likely underrepresents the number of Impact Aid grants that were expired at the time of the Department's initial and follow-up GONE Act reporting, as some grants that were expired at the time of those reports may have since been closed and would not have been captured in our query.

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script, which should close out the grants identified, and make sure the script runs automatically in the future.

Excluded Grants in Liquidation or Suspension Status

OFO elected to include only grants in the manual closeout phase in its GONE Act reporting despite there being expired grants in the liquidation and suspension closeout phases.⁹ OFO officials noted they did not include grants in liquidation and suspension because the only action associated with a grant in manual closeout status is for the program officer to contact the grantee to resolve outstanding issues needed to close out the grant. They further explained that grants in liquidation and suspension status, conversely, are considered active and an authorized extension could occur, or program staff or the grantee could request a legal action possibly due to an ongoing audit or related questioned costs. However, our review of the GONE Act and related guidance found that the Department should have included in its reporting all grants whose period of performance had been expired for 2 or more years, regardless of what closeout phase they were in. We determined there were at least three additional grants that should have been included in the Department's reporting as a result of this oversight.

G5 Data Limitations

We found that the Department's grant monitoring system, G5, does not contain the necessary data to accurately report on all expired grants. The General Education Provisions Act created a Tydings period for certain formula grant programs which is an additional 12-month period that allows recipient educational agencies and institutions to obligate and expend any funds that were not obligated or expended during the period of performance. G5 is not set up to track the Tydings period. Instead of being identified as an extension of the original period of performance end date, the Tydings period is combined with and captured as part of a grant's liquidation period in G5. Since

⁹ The standard liquidation phase is 90 days and the standard suspension phase is 6 months. Grants with the standard-length liquidation and suspension periods would move into manual closeout by the time the grant would be 2 years past its period of performance end date. As a result, only grants whose liquidation and/or suspension period had been extended would be 2 years or more past its period of performance end date but still be in a liquidation or suspension phase.

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it is possible for the Tydings period to be waived¹⁰ and performance periods extended beyond the 12-month Tydings period timeframe, and for the liquidation period to be extended beyond the normal 90-day period, determination of the actual period of performance end date using the data currently available in G5 is difficult.

To determine a grant's performance period end date for GONE Act reporting purposes, OFO staff started with the liquidation end date noted in G5 and subtracted the normal liquidation period of 90 days. However, this methodology may not have captured all of the grants subject to GONE Act reporting, as it assumes that any liquidation period in G5 that is more than 15 months¹¹ is attributable to a waiver of the Tydings period for applicable grantees instead of (or in addition to) an extension of the liquidation period.

An alternative methodology to account for the Tydings period would be to add 12 months to the period of performance end date. However, this assumes that any liquidation period in G5 that is more than 15 months for grantees eligible for the Tydings period resulted from extensions to the liquidation period, not waivers of the Tydings period. The methodology the Department used to account for the Tydings period effectively produces the minimum number of grants that were required to be reported, while the alternative methodology effectively produces the maximum number of grants that were required to be reported. See Table 3 below for examples of the effect of using the different methodologies on determining the performance period end date.

¹⁰ Grantees may request waivers of the Tydings period under section 8401 of the Elementary and Secondary Education Act, as amended by the Every Student Succeeds Act of 2015, which would allow for more than the standard 12-month period in which to obligate funds and thereby extend the grant performance period end date.

¹¹ The standard 12-month Tydings period + standard 90-day liquidation period

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Table 3. Various Scenarios Showing Effect of Using Different Methodologies to Determine Performance Period End Date

Scenario 1. Standard Tydings Period and Liquidation Period [Normal Timeframes]	
Period of Performance End Date (in G5)	9/30/12
Tydings End Date (Normal 12 Month Tydings Period)	9/30/13
Liquidation End Date (Normal 90 Day Liquidation Period)	12/29/13
Department Methodology Period of Performance End Date (Liquidation End Date – 90 Days)	9/30/13
Alternate Methodology Period of Performance End Date (G5 Period of Performance End Date + 12 Months)	9/30/13
Scenario 2. Extension to the Liquidation Period [3-Month Extension]	
Period of Performance End Date (in G5)	9/30/12
Normal Tydings End Date (12 Month Tydings Period)	9/30/13
Liquidation End date with Extended Liquidation Period (6 Month Liquidation Period)	3/31/14
Department Methodology Period of Performance End Date (Liquidation End Date – 90 Days)	12/31/13
Alternate Methodology Period of Performance End Date (G5 Period of Performance End Date + 12 Months)	9/30/13
Scenario 3. Waiver of the Tydings Period [Additional 12-Month Extension]	
Period of Performance End Date (in G5)	9/30/12
Tydings End Date with Waiver of Tydings Period (Extending It Additional 12 Months)	9/30/14
Liquidation End Date	12/29/14
Department Methodology Period of Performance End Date (Liquidation End Date – 90 Days)	9/30/14
Alternate Methodology Period of Performance End Date (G5 Period of Performance End Date + 12 Months)	9/30/13

We determined that there were 68 additional grants with almost \$78 million in undisbursed balances that would have been reported had the Department used the alternative methodology, though the true number of additional grants required to be reported is likely somewhere between this and the number actually reported. Due to the limitations of the data captured by G5, it is difficult to derive a completely accurate number. See Table 4 below.

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OFO staff acknowledged the limitations of the data in G5. OFO staff responsible for GONE Act reporting also acknowledged that neither methodology is perfect. At the exit conference, OFO and G5 staff noted that they would aim to have the next generation of the Department's grants management system more properly account for the Tydings period, though this likely would not happen until 2021 or 2022. In the meantime, they noted that they would consider possible modifications to G5 and manual workarounds that would allow the Department to more accurately identify which grants with Tydings periods are expired.

Table 4. Impact of Alternate Methodologies of Accounting for the Tydings Period on Initial GONE Act Reporting*

	# of Expired Grants	Undisbursed Dollar Balances
Number of Expired Grants in <i>Manual Closeout</i> (Subtracting 90 Days from the Liquidation Period, as was used in GONE Act reporting)	10	\$7,488,316
Number of Expired Grants in <i>Manual Closeout</i> (Adding 12 Months to the Period of Performance End Date)	16	\$7,609,167
Number of Expired Grants in <i>Liquidation and Suspension</i> (Subtracting 90 Days from the Liquidation Period, as was used in GONE Act reporting)	3	\$840,393
Number of Expired Grants in <i>Liquidation and Suspension</i> (Adding 12 Months to the Period of Performance End Date)	65	\$78,497,590
Number of Expired Grants in <i>All Phases of Closeout</i> (Subtracting 90 Days from the Liquidation Period, as was used in GONE Act reporting)	13	\$8,328,709
Number of Expired Grants in <i>All Phases of Closeout</i> (Adding 12 Months to the Period of Performance End Date)	81	\$86,106,757

*Not including Impact Aid formula grants

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Grant Closeout Policies and Procedures

We identified concerns with the Department's grant closeout policies and procedures. Specifically, we found that the Department's grant closeout monitoring process does not track all grants and that procedures that are not documented in policy cannot be enforced. Further, the Department implemented a process that allowed program offices to close older grants in compliance without having received all of the documentation normally required by policy.

Grant Closeout Monitoring Process

The Department currently has two processes to monitor grants in the closeout process. The Department sends out monthly reports to program offices identifying grants in the manual closeout phase, indicating that these grants are ready to be closed out. As a result of the passage of the GONE Act, the Department instituted a second process to monitor grants, specifically focused on grants whose period of performance will have ended 2 or more years prior to the end of the current fiscal year, including grants in liquidation and suspension phases that may be in manual closeout by the end of the fiscal year.¹² This second process required Assistant Secretaries of each program office to explain why expired grants were not closed out by the end of the fiscal year. However, this was not done in FY 2018 since the Department did not have any grants to report. OFO staff explained they did not do this at the end of FY 2019 either, as they could not require explanations from the program offices without the requirement being documented in Department policy. OFO noted that they plan to include the requirement to provide explanations for expired grants that are not closed in the next version of the Handbook for the Discretionary Grant Process, which is currently under revision.^{13,14} We found that neither of the monitoring processes include Impact Aid formula grants.

¹² OGA staff explained that these monthly reports include grants in liquidation, suspension, and manual closeout statuses from October through June. Starting in July, the reports are limited to grants in suspension and manual closeout, and in August and September limited to just grants in manual closeout status.

¹³ OGA staff noted that their expectation is to issue the revised Handbook during FY 2020.

¹⁴ OGA staff noted that they also plan to make updates to the Guide for Managing Formula Grant Programs in the near future but that they have not yet determined which new processes for discretionary grants will also be applicable to formula grants.

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Changes to Grant Closeout Procedures

OGA instituted a new process for closing out older grant awards that program staff would otherwise be unable to close in compliance. The Handbook for the Discretionary Grant Process and the Guide for Managing Formula Grant Programs note that grants that do not have final performance reports cannot be closed in compliance. The Handbook for the Discretionary Grant Process notes that grants closed in noncompliance may seriously affect a grantee's ability to receive awards under future grant competitions with the Department. Therefore, it is critical that program staff ensure this happens rarely and only in appropriate circumstances. It goes on to note that if a missing final performance report is the reason for noncompliance, program staff must contact grantees to obtain the report. Program staff should make several attempts to contact the grantee in writing requesting submission of the final report. If unable to get the missing report, program staff must close the grant in noncompliance.

On March 29, 2016, RMS issued RMS Memo 16-03, informing the program offices of the GONE Act and its purpose, and requested that program offices work proactively to close out grants that are eligible for closeout. Based on feedback from the program offices about the difficulty in obtaining final performance and financial reports from grantees whose grants ended several years ago, RMS issued RMS Memo 16-04 on September 7, 2016. This memo provided an avenue to close older grants in compliance without having received all required reports, contrary to existing Department policy. For grants awarded with FY 2010 and earlier appropriations, the memorandum allowed grants to be closed in compliance if the following occurred:

- Program staff attempted to get a copy of the required missing reports and documented that effort;
- If efforts to obtain a copy of the required reports were unsuccessful, program staff were allowed to close the grant in compliance if there were not any outstanding financial or performance issues to be resolved and, for discretionary grants, substantial progress was achieved during the performance period. If a grant was closed under this procedure, the program officer was required to certify that the grant was being closed in compliance and include the certification in the official grant file.

This process was intended to be a one-time administrative closeout procedure to resolve a nearly 30-year backlog of unclosed grants. We were unable to determine how many grants were actually closed using these alternative procedures as neither OFO nor the program offices we spoke with tracked these data. Further, when closing grants with the alternative procedures in G5, the Department's guidance instructed the program

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officer to put the date the reports were determined to be unobtainable in the actual report “receipt date” field. As a result, it is difficult to discern in G5 which grants were closed with these alternative procedures.

These procedures increased the risk that grants were closed in compliance that did not achieve substantial progress. A certification from the program officer that a grant achieved substantial progress, when the grant’s period of performance may have ended several years earlier, provides less assurance that substantial progress was actually achieved than the missing reports would have provided. Grants that should be closed in noncompliance may not be, allowing grantees to continue to receive additional grant funds. Further, since OGA did not track which grants have been closed without the required reports, OGA is unable to verify these grants were closed out correctly in accordance with the alternate procedures.

Current State of the Department’s Closeout Process

In October 2016, the Department identified a baseline of 8,948 grants totaling approximately \$2 billion that were in various states of the closeout process.¹⁵ We analyzed the same data OFO received to come up with its baseline but made adjustments to account for the Tydings period in order to provide a comparable baseline¹⁶ to compare to the Department’s volume of expired grants at the time of GONE Act reporting and as of a more recent date. We asked the Department to run the same query it used for GONE Act reporting for data in G5 as of January 30, 2020. We noted that the number of expired grants is close to the Department’s October 3, 2016 baseline (adjusted for Tydings) and has increased between 307% and 1,600% since the Department’s initial GONE Act reporting, depending on how one accounts for the Tydings period. This suggests that grant closeout is less of a focus now that GONE Act

¹⁵ This figure did not account for the Tydings period, as OFO staff were not immediately aware of the implications of the Tydings period on the period of performance end date, and it also did not include Impact Aid formula grants.

¹⁶ The data in G5 is such that it is not possible to run a query and generate accurate grant data for a point in time in the past. As such we were unable to obtain an earlier baseline and used the data OFO obtained for the October 3, 2016 baseline. The Department’s volume of expired grants was likely higher prior to this baseline, as RMS issued memos in March and September of 2016, encouraging Department staff to close out grants and provided alternative procedures for closing out older grants without required reports.

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reporting is over. Further, the amount of undisbursed balances has increased between 150% and 244%. See Tables 5a and 5b below.

Table 5a. Expired Grant Volume Over Time¹⁷ Accounting for the Tydings Period by Subtracting 90 Days from the Liquidation End Date

	2-3 years	3-5 years	5+ years	Total	Undisbursed Balances
September 30, 2017, date of GONE Act data	13	0	0	13	\$8,328,709
January 30, 2020	220	1	0	221	\$28,626,673

Table 5b. Expired Grant Volume Over Time Accounting for the Tydings Period by Adding 12 Months to the Period of Performance End Date

	2-3 years	3-5 years	5+ years	Total	Undisbursed Balances
October 3, 2016 ¹⁸	354	72	52	478	\$142,018,805
September 30, 2017, date of GONE Act data	81	0	0	81	\$86,106,757
January 30, 2020	273	55	2	330	\$215,385,634

We subsequently ran our own query of G5 data as of February 28, 2020, which included 132 expired Impact Aid grants, including the 74 grants that were previously identified as being excluded from the Department's GONE Act reporting. See Table 6 below.

¹⁷ Since data was obtained using the Department's GONE Act reporting query, it does not include Impact Aid formula grants. It does include grants in liquidation and suspension status, as these grants were manually filtered out by Department staff for GONE Act reporting purposes.

¹⁸ The data the Department received for its October 3, 2016 baseline did not include liquidation dates, so we were unable to analyze the data by accounting for the Tydings period based on a 90-day liquidation period.

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Table 6. Expired Grant Volume Including Impact Aid Formula Grants

	2-3 years	3-5 years	5+ years	Total	Undisbursed Balances
February 28, 2020, accounting for the Tydings period by subtracting 90 days from the liquidation end date	215	113	21	349	\$28,310,886
February 28, 2020, accounting for the Tydings period by adding 12 months to the period of performance end date	268	165	23	456	\$213,105,618

Response to Draft Memorandum

We provided a draft of this memorandum to OFO for comment. OFO agreed with our results regarding excluded Impact Aid grants and G5 data limitations and disagreed with our results regarding the appropriateness of excluding grants in liquidation and suspension statuses from GONE Act reporting. In addition, OFO noted its intention to move forward with grant policy deliberation consistent with the results of this review. No changes were made to this final memorandum as a result of OFO's response. The full text of OFO's response is included at Appendix A.

OFO's Comments

Regarding excluded Impact Aid grants, OFO acknowledged that the Impact Aid formula grant programs were not extracted under the G5 query used by OFO for the FY 2017 GONE Act reporting, and subsequently these grants were still open at the time of the FY 2018 GONE Act reporting.

OFO pointed out differences between Impact Aid formula grants and other formula grants at the Department, including that all review and award calculation processing is performed in the Impact Aid Grant System, with feeder files sent to G5 showing obligations and payment transactions. OFO noted that the transition to the Department's new IT infrastructure contract may have resulted in an oversight of the subprogram in G5 supporting these transactions and may have prevented the script to run that would have closed these formula grants. G5 staff have run a script to update

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the status for these awards to closed. For subsequent fiscal years, G5 staff will update their script for these grant programs so future awards will be moved to closed status once the suspension dates are met and the available balance is zero.

With regard to G5 data limitations, OFO acknowledged that there are limitations when determining the actual period of performance end date for grants with a Tydings period. OFO noted that OFO and G5 staff will collaborate with Department leadership representing the formula grant programs, OGA, the Office of Planning, Evaluation and Policy Development, and the Office of the General Counsel to review the results of OIG's review within the context of the current existing approach for determining the performance period end date for formula grants with Tydings periods. OFO further noted that information included in OIG's memorandum will be reviewed to address cross-cutting policy consideration, and eventual policy determination, that will be used to inform the next generation of the Department's grants management system. Consideration of possible modifications to G5, and manual workarounds to more accurately identify which grants with Tydings periods are expired, will be addressed within the context of cross-cutting policy deliberations.

OFO noted that its procedures for the selection of grants in the manual closeout phase in its GONE Act reporting followed guidance in *OMB Management Procedures Memorandum No. 2016-04*, which states that all grants must be closed "unless the Federal awarding agency authorizes an extension or program-specific statutes specify a different liquidation period." OFO further explained that, consistent with the Department's grants closeout policy, grants in liquidation and suspension statuses in G5 are considered active, when with an authorized extension a financial transaction occurs. In referencing the grants we identified that were in liquidation and suspension statuses in G5 that should have been included in GONE Act reporting, OFO noted that these grants had authorized extensions that aligned with the policy guidance in the second paragraph of *OMB Management Procedures Memorandum No. 2016-04*.

OIG Response

We appreciate the efforts OFO has taken and plans to take to ensure that G5 accurately reflects the current status of Impact Aid formula grants and to more accurately identify the actual performance end dates for formula grants with Tydings periods.

We disagree with OFO's interpretation of *OMB Management Procedures Memorandum No. 2016-04* with regard to the treatment of grants in liquidation and suspension phases for GONE Act reporting. The language cited by the Department pertains specifically to

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the standard timeframe that grantees have for liquidating obligations *after* the end of the period of performance. It notes that extensions to liquidation periods may occur if the awarding agency authorizes them or program-specific statutes specify a liquidation period that differs from the standard timeframe. The extension of a liquidation period does not impact the performance period end date like the Tydings period does.

Liquidation occurs after the performance period end date and would therefore have no bearing on which grants to include for GONE Act reporting purposes. Both the GONE Act and OMB memorandum note that agencies should report on grant awards for which closeout has not yet occurred and for which the period of performance, including any extensions (to the period of performance), has been expired for more than two years, to include any undisbursed or zero balances. Neither refers to what phase of closeout a grant may be in for the purpose of GONE Act reporting or provides any related exceptions.

Scope and Methodology

To accomplish the objective of our review, we:

- reviewed applicable laws and regulations;
- reviewed the Department's policies, procedures, and memorandums related to grant closeout;
- interviewed OGA and Cash & Business Financial Management Services Group staff within OFO;
- reviewed monthly closeout reports prepared by OGA staff;
- reviewed sections of the Department's FY 2017 and FY 2018 AFRs containing required GONE Act reporting;
- reviewed grant closeout data submitted to OMB MAX;
- analyzed grant closeout data used in GONE Act reporting;
- analyzed grant closeout data obtained from the Department's grants management system; and
- reviewed the Department's query for extracting grant closeout data.

Additionally, we contacted Office of Inspector General Investigations and Hotline staff regarding information on any investigations or hotline complaints related to the Department's grant closeout process.

Our assessment period covered January 2016, the enactment of the GONE Act, through February 2020. We conducted fieldwork at Department offices in Washington D.C., during the period November 2019 through March 2020.

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Appendix A

UNITED STATES DEPARTMENT OF EDUCATION OFFICE OF FINANCE AND OPERATIONS

TO: Ms. Michele Weaver-Dugan
Regional Inspector General for Audit
Internal Operations/Philadelphia Audit Team
Office of Inspector General

FROM: Denise L. Carter /s/
Acting Assistant Secretary
Office of Finance and Operations

SUBJECT: Response to Draft Memorandum – Risk Assessment of the Department’s Grants
Closeout Process – Control Number ED-OIG-S19U0002

Thank you for providing the U.S. Department of Education (Department) Office of Finance and Operations (OFO) the opportunity to review and comment on the March 20, 2020, draft memorandum, titled “Risk Assessment of the Department’s Grants Closeout Process” (ED-OIG-S19U0002). OFO appreciates the extensive work that went into the draft report and professional and cooperative manner demonstrated by the Office of Inspector General team while working with the OFO staff throughout the risk assessment.

We have reviewed the draft memorandum and it is OFO’s intention to move forward with grant policy deliberation consistent with the results of this review. Below are OFO’s responses to your memorandum.

OIG Inquiry - Excluded Impact Aid Grants:

We found that the Department’s GONE Act reporting did not include all Impact Aid grants. OFO staff indicated that Impact Aid grants were captured as part of the data used in GONE Act reporting. However, our review of the Department’s data identified that only discretionary Impact Aid grants were reported, not formula Impact Aid grants. Based upon our subsequent

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evaluation of the query used by the Department to extract grant data from the G5 database, we determined Impact Aid formula grant programs would not have been extracted and therefore would not have been included in reporting where applicable. To determine the extent of underreported Impact Aid grants, we ran a query similar to the Department's that was modified to ensure inclusion of formula Impact Aid grants. We found there were 74 Impact Aid grants still open as of the date of our query whose period of performance ended on or before September 30, 2015, that should have been included in the Department's FY 17 GONE Act reporting and, since they were still open, its FY 18 GONE Act reporting. When we brought this to the attention of OFO staff, they explained that Impact Aid grants are handled differently from regular formula grants in that program staff are not involved in closeout procedures. Rather, G5 automatically closes Impact Aid grants when their performance cycle ends, so these grants were not included in GONE Act reporting. The Impact Aid Director confirmed that G5 should have closed these grants and was not sure why any of them would still be open. Our review of the GONE Act and related guidance found nothing to indicate that Impact Aid formula grants should be exempted from reporting, regardless of how similar or dissimilar the process is for closing these grants compared to other Department grants.

At the exit conference, Department's officials noted that the transition to the Department's new IT infrastructure contract may have caused issues that prevented the script to run that would have closed these grants. G5 staff noted they would run the script, which should close out the grants identified, and make sure the script runs automatically in the future.

OFO's Response:

The Impact Aid formula grant programs were not extracted under the G5 query used by OFO for the FY 17 GONE Act reporting, and subsequently these grants were still open at the time of the FY 18 GONE Act reporting.

The Impact Aid formula grants are awarded in increments, as the formula distribution for all eligible grantees is finalized. Unlike other Department formula grants, payments are released in increments at the same time as obligations are created, with all review and award calculation processing performed in the Impact Aid Grant System. Feeder files are sent to G5 showing obligations and payment transactions only, and no other information is recorded in G5. The transition to the Department's new IT infrastructure contract may have resulted in an oversight of the subprogram in G5 supporting these transactions and may have prevented the script to run that would have closed these formula grants.

G5 staff have run a script to update the status for these awards from Manual Closeout to Closed. For subsequent fiscal years, the G5 staff will update their script for these grant programs so future awards will be moved to Closed status once the suspension dates are met and the available balance is zero.

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OIG Inquiry - Excluded Grants in Liquidation or Suspension Status:

OFO elected to include only grants in the manual closeout phase in its GONE Act reporting despite there being expired grants in the liquidation and suspension closeout phases. OFO officials noted they did not include grants in liquidation and suspension because the only action associated with a grant in manual closeout status is for the program officer to contact the grantee to resolve outstanding issues needed to close out the grant. They further explained that grants in liquidation and suspension status, conversely, are considered active and an authorized extension could occur, or program staff or the grantee could request a legal action possibly due to an ongoing audit or related questioned costs. However, our review of the GONE Act and related guidance found that the Department should have included in its reporting all grants whose period of performance had been expired for 2 or more years, regardless of what closeout phase they were in. We determined there were at least three additional grants that should have been included in the Department's reporting as a result of this oversight.

OFO's Response:

OFO's procedures for the selection of grants in the manual closeout phase in its GONE Act reporting followed the guidance noted in the *OMB Management Procedures Memorandum No. 2016-04*, issued on August 15, 2016. In particular, the second paragraph of the *Background* section notes that all grants must be closed "unless the Federal awarding agency authorizes an extension or program-specific statuses specify a different liquidation period."

GONE Act reporting included grants in all stages of the closeout process (liquidation, suspension, manual closeout). However, consistent with grants closeout policy (Handbook for the Discretionary Grants Process 6.12.2 and the Guide for Managing Formula Grant Programs 5.8.3), after the 6-month suspension status period, if a grant still has either unexpended funds or a required report is not received and recorded in G5 by the program, G5 automatically moves the grant to a manual closeout status.

Consistent with grants policy, those grants in liquidation and suspension status in G5 are considered active, when with an authorized extension, a financial transaction occurs. With proper authorization, a grant could conceivably move from a suspension status to a liquidation status for the purpose of drawing funds for obligations incurred prior to the grant's performance period end date. Under this procedure, the liquidation period is extended.

The grants referenced above had authorized extensions that aligned with the policy guidance in the second paragraph of the *OMB Management Procedures Memorandum No. 2016-04*.

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OIG Inquiry – G5 Data Limitations:

We found that the Department's grant monitoring system, G5, does not contain the necessary data to accurately report on all expired grants. The General Education Provisions Act created a Tydings period for certain formula grant programs which is an additional 12-month period that allows recipient educational agencies and institutions to obligate and expend any funds that were not obligated or expended during the period of performance. G5 is not set up to track the Tydings period. Instead of being identified as an extension of the original period of performance end date, the Tydings period is combined with and captured as part of a grant's liquidation period in G5. Since it is possible for the Tydings period to be waived and performance periods extended beyond the 12-month Tydings period timeframe, and for the liquidation period to be extended beyond the normal 90-day period, determination of the actual period of performance end date using the data currently available in G5 is difficult.

To determine a grant's performance period end date for GONE Act reporting purposes, OFO staff started with the liquidation end date noted in G5 and subtracted the normal liquidation period of 90 days. However, this methodology may not have captured all of the grants subject to GONE Act reporting, as it assumes that any liquidation period in G5 that is more than 15 months¹ is attributable to a waiver of the Tydings period for applicable grantees instead of (or in addition to) an extension of the liquidation period.

An alternative methodology to account for the Tydings period would be to add 12 months to the period of performance end date. However, this assumes that any liquidation period in G5 that is more than 15 months¹ for grantees eligible for the Tydings period resulted from extensions to the liquidation period, not waivers of the Tydings period. The methodology the Department used to account for the Tydings period effectively produces the minimum number of grants that were required to be reported, while the alternative methodology effectively produces the maximum number of grants that were required to be reported.

We determined that there were 68 additional grants with almost \$78 million in undisbursed balances that would have been reported had the Department used the alternative methodology, though the true number of additional grants required to be reported is likely somewhere between this and the number actually reported. Due to the limitations of the data captured by G5, it is difficult to derive a completely accurate number.

OFO's Response:

The Department acknowledges the data limitations in G5 when determining the actual period of performance end date for grants with a Tydings period. Currently, the Tydings period is

¹ The standard 12-month Tydings period + standard 90-day liquidation period

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combined with and captured as part of a grant's liquidation period in G5, making it difficult to effectively report expired grants.

Table 3 of the draft memorandum proposes three scenarios utilizing different methodologies to determine the performance period end date for formula grants: (1) Standard Tydings Period and Liquidation Period (Normal Timeframes); (2) Extension to the Liquidation Period (3-Month Extension); and (3) Waiver of the Tydings Period (Additional 12-Month Extension).

As reported during the exit conference, OFO and G5 staff will collaborate with Department leadership representing the formula grant programs, the Office of Grants Administration, the Office of Planning, Evaluation and Policy Development, and the Office of the General Counsel to review the results of the OIG's review within the context of the current existing approach.

The information provided in Tables 3 and 4 will be reviewed to address cross-cutting policy consideration, and eventual policy determination, that will be used to inform the next generation of the Department's grants management system. Consideration of any possible modifications to G5, and manual workarounds to more accurately identify which grants with Tydings period are expired, will also need to be addressed within the context of cross-cutting policy deliberations.